

STATE OF VERMONT
PUBLIC SERVICE BOARD

Docket No. 6959

Investigation into a Successor Incentive)
Regulation Plan for Verizon New England)
Inc., d/b/a Verizon Vermont)

Docket No. 7142

Investigation into Tariff Filing of Verizon)
New England Inc., d/b/a Verizon Vermont)
in re Compliance Filing in Docket 6959)

**MEMORANDUM OF UNDERSTANDING
BETWEEN VERIZON NEW ENGLAND INC., d/b/a VERIZON VERMONT
AND THE VERMONT DEPARTMENT OF PUBLIC SERVICE**

This Memorandum of Understanding (the "MOU") dated as of March 2, 2006 sets forth the agreement of the Vermont Department of Public Service (the "DPS") and Verizon New England Inc., d/b/a Verizon Vermont ("Verizon VT") (collectively, the "Parties") to an Amended Vermont Incentive Regulation Plan ("Amended Plan") attached hereto as Attachment I and to certain modifications to the Orders of the Vermont Public Service Board ("Board") in the above-captioned dockets.

Introduction and Recitals

1. On September 26, 2005, the Board issued a Final Order in Docket 6959 that approved a Vermont Incentive Regulation Plan for Verizon VT. The Final Order required, in part, that Verizon VT implement an \$8.18 million annual rate reduction effective as of July 1, 2005, and additional future rate reductions of \$1.26 million effective July 1, 2007 and \$1.80

million effective July 1, 2008 (collectively "Rate Reductions"). The Final Order also provided that such Rate Reductions could be avoided if Verizon VT made certain infrastructure improvements pursuant to a Network Investment Incentive Plan. In addition, the Plan required that Verizon VT invest \$40 million annually in the state.

2. By letters dated October 11, 2005 and November 9, 2005, Verizon VT filed tariffs designed to implement certain of the Rate Reductions required by the Board in its Final Order.

3. On October 21, 2005, the Board issued an Order Re: Motion for Stay and Corrections to September 26, 2005 Order ("Stay Order") in Docket 6959 approving a Corrected Vermont Incentive Regulation Plan ("Plan").

4. Verizon VT filed a notice of appeal on October 25, 2005 ("Appeal").

5. By letter dated December 21, 2005, Verizon VT advised the Board that it would not be filing a proposed Network Investment Plan, which could have offset some or all of the Rate Reductions identified above.

6. On January 6, 2006, the Board issued an Order in Docket 7142 suspending the effectiveness of Verizon VT's proposed tariffs designed to implement the currently-effective Rate Reduction.

7. The Parties entered into a Stipulation Re: Lifeline-Related Tariff Revisions dated

as of January 23, 2006 ("Lifeline Stipulation") making certain bundled service offerings available to Lifeline customers, effective May 1, 2006.

8. By letter dated January 31, 2006, Verizon VT advised the Board of a plan to separately publish and distribute white and Yellow Pages directories ("Separation Proposal") in accordance with the Final Order.

9. The Parties have engaged in extensive discussions with respect to potential modification of the Board's requirements under its Orders and the Plan.

10. Based on those discussions, the Parties have reached agreement that, among other things, the following actions should be taken, all as set forth in this MOU and a proposed amendment to the Plan:

1. The Plan should be amended and certain requirements of the Final Order should be modified in the following ways:
 - a. Amend the term of the Plan so that it extends to December 31, 2010, but the Board may terminate the Amended Plan as of December 31, 2008 if it finds that Verizon has not met its Broadband deployment obligations under the Amended Plan through December 31, 2008 or is in material violation of any other term or condition of the Plan; and
 - b. Eliminate (i) the Rate Reductions, (ii) the Network Investment Incentive Plan, and (iii) the mandated \$40 million annual investment; and
2. Verizon VT will make available broadband capability as follows:

By December 31, 2007: 65% of lines qualified.
By December 31, 2008: 75% of lines qualified.
By December 31, 2009: 77% of lines qualified.
By December 31, 2010: 80% of lines qualified.

The 2009 and 2010 milestones shall not apply if the Plan is terminated as of 2008. The

definition of broadband, the method of calculating compliance with the milestones and other details shall be as set forth in the Amended Plan.

Without limiting its ability to introduce new services or expand existing services, Verizon agrees that it does not intend to meet the additional broadband service milestones through qualifying additional lines or line equivalents in the territory served by its Burlington Central Office.

Amended Plan

11. The Parties agree that the Board should amend the Plan in the manner set forth in the Amended Plan.

Modifications to Final Order; Termination of Docket 7142

12. The Parties further agree that the Board should amend the Final Order as follows:
- a. Approval of the Amended Plan;
 - b. Elimination of the requirement that Verizon VT file tariffs implementing the Rate Reductions (Final Order ¶ 185);
 - c. Addition of a requirement that Verizon will maintain throughout the term of the Amended Plan, the Separation Proposal described in its letter to the Board of January 31, 2006;
 - d. Replacement of the requirement that Verizon maintain a level of at least \$40 million in annual investment with a requirement that, during the term of the Amended Plan, Verizon shall maintain at all times a level of infrastructure investment and operating expenditures sufficient to maintain the ongoing integrity of its network and the reliability and availability of its services;

- e. Addition of a provision stating that Verizon's services will not be subject to cost-based rate decreases during the term of the Amended Plan or financial review in connection with rate decreases (not including revenue neutral rate restructuring under paragraph II(A)(1)(b) of the Amended Plan) to be implemented prior to the expiration of the Amended Plan, except as necessitated by Exogenous Events as defined by the Amended Plan;
- f. Extension of the deadline to file a depreciation study until December 31, 2009, or 12 months after early termination of the Amended Plan, whichever occurs earlier; and
- g. Modification of any requirement contained in the Final Order to the extent necessary to be consistent with the Amended Plan and this MOU.

13. The Parties further agree that all tariffs filed with the Board with respect to the Rate Reductions shall be withdrawn and the proceedings in Docket 7142 shall be terminated; provided that the tariff changes reflected in the Lifeline Stipulation shall not be withdrawn but instead shall be effective in accordance with their terms.

Procedure

14. Upon the execution of this MOU, the Parties will request that the Board (1) take no further action in Docket 6959 or Docket 7142 inconsistent with the terms of this MOU, absent agreement of the Parties, until the Board has ruled on this MOU, (2) request the Vermont Supreme Court to remand jurisdiction in Docket 6959 to the Board for the limited purpose of the

Board's consideration of this MOU, and (3) upon such remand or a determination that a remand is unnecessary, to issue as expeditiously as possible, order(s) approving (a) this MOU, (b) the Amended Plan, (c) the modifications to the Final Order, (d) the termination of Docket 7142 and (e) all other actions under this MOU for which Board approval is required in order to be effective, all in the manner set forth in this MOU, and containing only such terms as are consistent with the provisions of this MOU ("Approval Orders"). The Parties will consult with each other concerning the timing and substance of any public communications, and will use reasonable efforts to develop a joint announcement of the MOU.

15. The Parties will cooperate in further Board proceedings and sponsor testimony necessary to support this MOU to the extent deemed necessary by the Board in connection with the above-captioned dockets.

16. This MOU shall become effective and binding on the Parties upon, and only upon, the issuance of Approval Orders that have become non-appealable; provided, however, that the two preceding paragraphs of this MOU shall become effective and binding upon execution of this MOU.

Withdrawal of Appeal

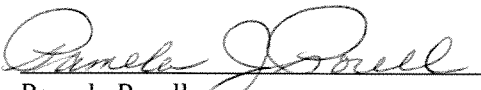
17. Verizon VT will withdraw the Appeal as soon as the MOU becomes effective and binding on the Parties pursuant to the preceding paragraph.

Other Terms and Conditions

18. This MOU is governed by Vermont law and any disputes under this MOU shall be decided by the Board.

19. The Parties agree that this MOU and any Order approving this MOU relate only to these Parties and should not be construed by any party or tribunal as having precedential or any other impact on future proceedings involving the Parties, except as necessary to implement this MOU or to enforce an Order of the Board resulting from this MOU. The Parties reserve the right in future proceedings to advocate positions that differ from those set forth in this MOU, and this MOU and any Order approving this MOU may not in any future proceeding be used against any Party, except as necessary to enforce the Parties' rights and obligations under this MOU or to enforce the Approval Orders.

20. The Parties have made specific compromises to reach the agreements reflected in this MOU. In the event that the Board fails to issue Approval Orders by April 30, 2006 or acts to overrule or disapprove any portion hereof, either Party in its sole discretion may terminate this MOU and all obligations hereunder, upon five days' written notice to the other Party, and in such event each Party shall have the same rights as each would have had absent this MOU.

By: 
Name: Pamela Porell
Title: Vice President, Verizon Vermont

Dated: March 2, 2006 at South Burlington, Vermont

STATE OF VERMONT
DEPARTMENT OF PUBLIC SERVICE

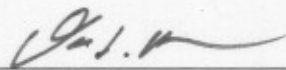
By: _____
Name: David O'Brien
Title: Commissioner
Dated: March __, 2006 at Montpelier, Vermont

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By: _____
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